

County of Orange Fiscal Impact Analysis

*Initiative Reallocating a Portion of the
County's Proposition 172 Funds from the
County Sheriff-Coroner and District
Attorney to the Orange County Fire
Authority*

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Introduction and Summary

This report evaluates the fiscal impact on Orange County government of the proposed “Initiative Reallocating a Portion of the County’s Proposition 172 Funds from the County Sheriff-Coroner and District Attorney to the Orange County Fire Authority” (the “Initiative”). The Initiative, which may be placed on the next statewide election ballot (currently scheduled for March 2006) or adopted as an Ordinance by the Board of Supervisors, will reallocate Proposition 172 sales tax revenue currently received by the County, and require that an annual amount no greater than 10% of the total is allocated to the Orange County Fire Authority. The purpose of this report is to:

1. Describe the history of Proposition 172, including the factors that led to the implementation of the Initiative, the total funding provided to the County from inception, and the County’s historic use of the funds.
2. Estimate the revenue loss to the County as a result of the Initiative and analyze the potential impact on County services.
3. Analyze the County of Orange funding sources and assess its current financial condition.
4. Analyze the fiscal impact of the Initiative on the OCFA.
5. Identify the potential service impact on cities and residents within the County that may lose countywide services.

Findings

Based on a review of County and OCFA financial and planning documents, and independent research and analysis, this report has made the following findings:

- Passage of the Initiative will result in an ongoing loss in Proposition 172 revenue of over \$30 million per year which the County currently plans to receive.
- The County has limited financial resources to absorb or delay the impact of the loss in Proposition 172 revenue, as the County expects to use reserves to fund departmental costs over the next two years.
- The loss of Proposition 172 revenue will likely require that the County reduce services.
- The County currently allocates Proposition 172 revenue entirely to costs of the Sheriff’s Department and the District Attorney’s Office and any reduction in Proposition 172 revenue will, under existing County guidelines, require service reductions in those departments.
- The specific impact of the Initiative on County services is uncertain, as any decision to reduce County services may involve all levels of County government, including the Board of Supervisors, County management, and County employees.

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- Both the Sheriff's Department and District Attorney's Office have delayed hiring and eliminated positions in recent years, and any loss of Proposition 172 revenue will strain existing resources and potentially reduce countywide public safety services.
 - All cities in Orange County will be impacted by reductions in Sheriff's Department and District Attorney's Office public safety services.
 - The Initiative will provide a substantial ongoing source of revenue for the Orange County Fire Authority ("OCFA") and may result in expanded fire service to OCFA member jurisdictions.
 - Based on identified funding needs of the OCFA, the Initiative may result in increased staffing for fire stations and engine and truck companies, and replacement of facilities and equipment.
 - Any potential increase in OCFA service will primarily benefit the 23 OCFA member jurisdictions, which represent 43% of the total County population – Orange County cities that are not members of the OCFA will not receive a direct increase in fire services.

Background and History

The Initiative

The proposed voter initiative, entitled the “Guaranteed Fire Protection and Firefighter Safety Funding Ordinance,” would allocate 50% of any increase over a base year amount in FY 2004-05 of Proposition 172 revenue to the OCFA, subject to a maximum allocation of 10% of the total annual County Proposition 172 revenue. In particular, provisions of the Initiative specify that:

1. FY 2004-05 shall be established as the base year amount for the calculation of future allocations;
2. For FY 2005-06 and each fiscal year thereafter, any amounts over the base year amount will be divided between the OCFA and the County equally;¹
3. For FY 2005-06 and thereafter, if the base year amount is greater than the County’s amount, the OCFA will not receive any allocation;
4. The calculations and allocations shall continue until the amount paid to the OCFA equals 10% of the County’s total available Proposition 172 revenues.

In accordance with the elections code, the OCFA submitted 112,769 signatures to the Orange County Registrar of Voters for certifications on July 19, 2004. Since the signatures constituted 10% of the County votes cast in the last gubernatorial election, the Initiative will be on the ballot during the next statewide election (currently scheduled for March 2006).

Proposition 172

On November 2, 1993, California voters enacted Proposition 172, the “Local Public Safety Protection and Improvement Act of 1993,” which established a permanent statewide half-cent sales tax for support of local public safety functions in cities and counties. Proposition 172 was approved by 58% of the voters in the State.

The legislature and the Governor placed Proposition 172 before the voters as a mitigation measure to offset the impact of the Education Revenue Augmentation Funds (“ERAF”) shifts on municipal budgets. In 1992, the California Legislature and Governor instructed county auditors to shift the allocation of local property tax revenues away from local government to ERAF for the benefit of schools.

The Proposition 172 sales tax is collected by the State Board of Equalization and then apportioned to each county based on its proportionate share of statewide taxable sales. The county then deposits the revenue in a Public Safety Augmentation Fund (“PSAF”) to be allocated by the county auditor to the county and cities located within the county. The allocation formula is

¹ Because the election to consider the Initiative will occur no earlier than March 2006, this report assumes that the allocation of Proposition 172 revenue will begin in FY 2006-07.

based on the proportionate share of net property tax loss due to the ERAF shift. Since its inception, Proposition 172 sales tax revenues have totaled \$21 billion in the State.

Proposition 172 restricts the use of funds to dedicated public safety purposes, which are defined as “police, sheriffs, fire, criminal prosecution and corrections.” The allocation between such uses is not specified by law. The respective county board of supervisors has the discretion to change the allocation among allowable uses in each fiscal year.

Use of Proposition 172 Funding In Orange County

Since the passage of Proposition 172, Orange County has received a total of \$2 billion of Proposition 172 sales tax revenue – an average of \$185 million per year. In fiscal year 2003-04, the County received \$236.9 million of Proposition 172 funds.

On September 26, 1995, the Orange County Board of Supervisors formally adopted a policy to allocate 80% of the Proposition 172 funds to the Sheriff's Department and 20% to the District Attorney's Office.² As of the FY 2004-05 budget, Proposition 172 funds provide for 48% of the County Sheriff's operating budget and 59% of the District Attorney's operating budget.

As discussed above, Proposition 172 funding was intended to mitigate the loss in county and city revenue resulting from the ERAF shift. However, because Proposition 172 is a sales tax and the lost revenue from the ERAF shift are property tax revenue, the amount the County has received under Proposition 172 is not the same as the amount the County has lost from the ERAF shift. As shown in the table below, the County has lost approximately \$68 million more to ERAF than the amount of revenue received under Proposition 172.

HISTORICAL ERAF PROPERTY TAX AND PROPOSITION 172 REVENUE

<u>Fiscal Year</u>	<u>ERAF</u>	<u>Proposition 172</u>	<u>Variance</u>
1992-93	\$ (14,527,988)	-	\$ (14,527,988)
1993-94	(159,328,571)	130,357,584	(28,970,987)
1994-95	(157,840,022)	141,143,489	(16,696,533)
1995-96	(158,216,656)	152,494,439	(5,722,217)
1996-97	(159,372,366)	161,186,301	1,813,935
1997-98	(164,444,481)	173,665,323	9,220,842
1998-99	(174,106,932)	184,049,906	9,942,974
1999-00	(188,481,617)	209,748,928	21,267,311
2000-01	(206,551,203)	223,604,856	17,053,653
2001-02	(225,274,561)	213,607,460	(11,667,101)
2002-03	(244,917,635)	219,562,310	(25,355,325)
2003-04	(261,247,391)	236,946,901	(24,300,490)
Total	\$ (2,114,309,423)	\$2,046,367,497	\$ (67,941,926)

Source: Orange County Auditor-Controller.

² Orange County Board of Supervisors, Resolution No. 95-718, September 26, 1995.

The County has also lost financial flexibility as a result of the ERAF shift, given that Proposition 172 revenue is restricted to specific uses, while the lost property tax revenue is not.

Fire Protection in Orange County

There are currently 34 cities within Orange County and 301.9 square miles of unincorporated territory. The OCFA provides fire service to 22 of the 34 cities and to the unincorporated area of the County (excluding the Cleveland National Forrest). The 22 cities and the County unincorporated area represent 43% of the total County population. Twelve Orange County cities have independent fire departments that are managed and funded by the respective city.

Prior to the formation of the OCFA in March 1995, the Orange County Fire Department, a department of the County governed by the Board of Supervisors and funded by the County, provided fire and emergency response service to the unincorporated County area and 18 contract cities.

Fiscal Impact on County Government

The passage of the Initiative will result in a significant and ongoing loss of revenue which the County currently projects to receive. This loss of revenue will likely require that the County reduce services. This is because the County currently allocates most of its recurring revenues (including Proposition 172 revenue) to fund recurring expenditures and expects that future costs will grow faster than revenues. The County also has limited financial resources to absorb or delay the impact of the loss in revenue.

Impact on the County Budget

This section of the report estimates the revenue loss to the County, evaluates the County's future costs and the potential to reduce County expenditures to offset the revenue loss, and evaluates the County's financial condition and the potential to absorb or delay the revenue loss.

Revenue Loss to the County

The Initiative will result in a diversion of 50% of all Proposition 172 revenue, above a base level, that is allocated to Orange County. Ultimately, 10% of all County Proposition 172 revenue will be diverted to the OCFA. The actual annual dollar amount of lost revenue will depend on the future growth of Proposition 172 revenue.

County Forecast of Proposition 172 Revenue

The County prepares forecasts of sales tax revenue as part of its ongoing budget and strategic planning efforts. In its *2004 Strategic Financial Plan* ("SFP"), the County projects that Proposition 172 revenues will increase at an average rate of 5.41% per year for fiscal years 2004-05 through 2008-09.

In addition to its own forecast, the County obtains a sales tax forecast from Chapman University as a benchmark against the County forecast. The table below shows the projected growth rate of the County and Chapman University forecasts for fiscal years 2004-05 through 2008-09. The County

forecast is higher in fiscal year 2004-05, but slightly lower than the Chapman University forecast thereafter.

**PROJECTED PROPOSITION 172 SALES TAX
GROWTH RATES**

<u>Fiscal Year</u>	<u>County Forecast</u>	<u>Chapman Forecast</u>
2004-05	7.09%	5.60%
2005-06	5.00%	5.30%
2006-07	5.00%	5.40%
2007-08	5.38%	5.40%
2008-09	4.62%	5.40%

Source: County of Orange, "2004 Strategic Financial Plan," March 2004; Chapman University, *General Purpose Revenue Forecast*.

Based on the County Proposition 172 forecast used in its 2004 SFP, the County would lose \$61 million in Proposition 172 sales tax revenue over the 5-year period of the SFP. The table below shows the estimated County Proposition 172 sales tax revenue and potential loss to the OCFA for fiscal years 2004-05 through 2008-09.

PROJECTED ALLOCATION OF PROPOSITION 172 REVENUE

<u>Fiscal Year</u>	<u>Prop 172 Revenue</u>	<u>Sales Tax Base</u>	<u>Incremental Prop 172 Revenue</u>	<u>OCFA Allocation¹</u>	<u>County Share</u>
2003-04	\$236,946,901				
2004-05	253,756,092	(253,756,092)	-	-	253,756,092
2005-06	266,446,387	(253,756,092)	12,690,295	-	266,446,387
2006-07	279,763,938	(253,756,092)	26,007,846	(13,003,923)	266,760,015
2007-08	294,814,869	(253,756,092)	41,058,777	(20,529,388)	274,285,480
2008-09	308,442,921	(253,756,092)	54,686,829	(27,343,414)	281,099,506
TOTAL				\$60,876,726	

1 – Assumes allocation to OCFA begins July 1, 2006.

Beyond fiscal year 2008-09, the County will continue to lose revenue to the OCFA. Using the Chapman University forecasts for fiscal years 2009-10 through 2012-13, it is estimated that the County will lose \$201 million in Proposition 172 revenue over the next 9 years.

Future County Costs – The Strategic Financial Plan

The County prepares five-year forecasts of discretionary general fund revenue and expenditures as part of its Strategic Financial Plan ("SFP"). The SFP, which is updated annually, estimates the resources available to the County and determines funding priorities for the use of those resources. The SFP includes detailed projections, including staffing requirements, for each County department. The SFP involves only the discretionary portion of the

County's \$2.5 billion general fund budget – expenditures that are not mandated or funded through restricted or dedicated revenues.

The County prepared its most recent SFP in May 2004. A summary of the 2004 SFP is shown in the table below. The table shows projected revenues, expenditures, and the number of positions for the County's discretionary general fund spending for fiscal years 2004-05 through 2008-09. The projections show that total discretionary revenues (including a 100% allocation of Proposition 172 revenue) will be insufficient to fund expenditures over the five-year planning period. The projected expenditures are those needed to fund the current level of service, as estimated by the County. In the event future revenues do not exceed projections, the County will be required to reduce expenditures or utilize available reserves to balance future budgets.

COUNTY OF ORANGE PROJECTED DISCRETIONARY GENERAL FUND SOURCES AND USES (in millions)					
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
SOURCES					
Revenue	\$419.7	\$448.2	\$460.3	\$473.0	\$484.8
Other Funding Sources	121.4	120.0	112.9	115.7	118.9
Total Sources	<u>\$541.1</u>	<u>\$568.2</u>	<u>\$573.2</u>	<u>\$588.7</u>	<u>\$603.7</u>
USES					
Expenditures ¹	\$580.7	\$624.6	\$645.4	\$667.9	\$689.3
Total Uses	<u>\$580.7</u>	<u>\$624.6</u>	<u>\$645.4</u>	<u>\$667.9</u>	<u>\$689.3</u>
Sources Less Uses	\$(39.6)	\$(56.4)	\$(72.2)	\$(79.2)	\$(85.6)
Positions					

Source: County of Orange, "2004 Strategic Financial Plan," May 2004.

1 – Estimated expenditures necessary to maintain the current level of service. See discussion under "– County Expenditures."

In the County's projections, the budgetary gap between revenues and expenditures widens over time as the growth in expenditures exceeds the growth in revenue. Revenues are projected to grow at an average annual rate of 3.7%, while expenditures grow at a 4.4% rate.

Fiscal Year 2004-05 Budget Adjustments

Subsequent to the preparation of the 2004 SFP, the County developed a fiscal year 2004-05 balanced budget. The County implemented several cost reduction measures, including the closing of juvenile institutional beds, the closing of 2 family resource centers, reduced parolee monitoring, reduced indigent mental health services, reduced alcohol and drug treatment, and reductions to health clinic services, in order to match available financial resources.

In addition, the County recently adopted Memorandum of Understanding ("MOU") with most of its collective bargaining units that may impact future

salary and benefit costs. The new MOU, which are effective through June 2007, do not provide for salary increases (excluding the Association of Orange County Deputy Sheriffs, which is currently negotiating its collective bargaining agreement) and increase the employees' contribution for health and pension benefits. The future salary and benefit costs set forth in the MOU do not substantially differ from the assumptions used in the 2004 SFP.³

County Expenditures

The 2004 SFP provides a plan for a wide-range of County expenditures. The process for identifying expenditures involves a review of County activities, which identifies mandates, level of service requirements, and core businesses. This process identifies a baseline budget of County expenditures. Future department budgets, including funding of reserves, are limited to the rate of growth in general purpose revenues. This baseline level of expenditures is referred to as the budget "limits."

In addition to baseline expenditures, the 2004 SFP includes expenditures necessary to maintain the current level of County service. These expenditures are referred to as "restorations." The sum of budget limits and restorations are those expenditures needed to fund the current level of service.

The table below compares the projected growth in population to the projected number of County employees in the 2004 SFP. The projected number of employees provides an indication of the County's future level of service. The future growth in County employees in the 2004 SFP is not expected to keep pace with the growth in County population.

PROJECTED POPULATION AND COUNTY EMPLOYEES COUNTY OF ORANGE

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Population (thousands)	3,051.9	3,082.4	3,108.3	3,139.6	3,171.2
Annual % Change		1.00%	0.84%	1.01%	1.01%
County employees	17,534	17,428	17,257	17,244	17,230
Annual % Change	-1.22%	-0.60%	-0.98%	-0.08%	-0.08%

Source: County of Orange, "2004 Strategic Financial Plan," March 2004; Chapman University, U.S. and Orange County Macroeconomic Overview.

In addition to baseline services, the 2004 SFP include several "strategic priorities" that address issues of major importance to the County. Because the strategic priorities are not in the County's baseline budget, the strategic priorities can be characterized as discretionary spending. For fiscal years 2004-05 and 2005-06, the total amount expended on strategic priorities is \$16.7 million.

Reserves

As of June 30, 2004, the County had accumulated \$327.5 million in general fund reserves, excluding retirement reserves, which are held by a third-party

³ The 2004 SFP includes no salary increases for fiscal years 2004-05 and 2005-06.

trustee. The reserves are designed for specific uses, as determined by action of the Board of Supervisors. The table below lists the County's various reserves, the designated uses, and balance.

COUNTY OF ORANGE GENERAL FUND RESERVES

<u>Reserve</u>	<u>Use</u>	<u>Balance As of 6/30/04 (millions)</u>
Strategic Priority Reserve	Priority projects	\$ 56.0
Designated Special Revenue	Internal self financing and cash flow borrowing	22.0
General Fund Contingency Reserve	Contingencies	23.0
Debt Prepayment Fund	Debt reduction	98.0
Program Reserves	Department reserves (includes surplus Proposition 172 revenue reserve)	118.3
Other		10.2
TOTAL		<u>\$327.5</u>
Retirement Reserves	Pension	\$145.0

Source: County of Orange, County Executive Office.

In the 2004 SFP, the County has projected reserve balances through fiscal year 2005-06. The County expects that certain reserves will be used to fund expenditures in fiscal year 2004-05 and 2005-06. As shown in the table below, the Program Reserves are expected to be substantially reduced by the end of fiscal year 2005-06 to fund departmental costs (primarily those of the Sheriff and District Attorney's Office).

ACTUAL AND PROJECTED RESERVE BALANCES (Dollars in millions)

<u>Reserve</u>	<u>6/30/04</u>	<u>6/30/05</u>	<u>6/30/06</u>
Strategic Priority Reserve	\$ 56.0	\$ 23.0	\$ 23.0
Designated Special Revenue	22.0	20.0	18.0
General Fund Contingency Reserve	23.0	23.0	23.0
Debt Repayment Fund	98.0	98.0	98.0
Program Reserves	118.3	66.4	37.4
Other	10.2	5.2	5.2
TOTAL	<u>\$327.5</u>	<u>\$235.6</u>	<u>\$204.6</u>

Source: County of Orange, County Executive Office.

Analysis of Costs – Sheriff and District Attorney

An important aspect in the analysis of County costs is identifying those costs that are essentially fixed and cannot be easily reduced, at least in the short run. Examples of fixed costs are contractually obligated costs, such as

salary and wage increases included in labor agreements, defined pension plans, and debt service. As the proportion of fixed costs increases, the flexibility to reduce, or at least limit the growth in costs, is reduced.

For the Sheriff and District Attorney departments, the majority of costs are related to salary and benefits. Salary and benefits comprise 86% of the Sheriff's Department main operating budget and 87% of the District Attorney's main operating budget in fiscal year 2004-05.

There are 3,209 positions in the Sheriff's Department main operating budget and 637 positions in the District Attorney's Office. Of the Sheriff's total number of positions, 3,143 are covered under collective bargaining agreements. The District Attorney's Office has 607 employees covered under collective agreements.

On August 24, 2004, the County adopted Memorandum of Understanding with most of its collective bargaining units, including the Attorney Unit, Sheriff Special Officer Unit and Deputy Coroner Unit, Probation Services Unit, and Probation Supervisory Management Unit. The new labor agreements (with the exception of the Craft and Plant Engineer Unit) are effective through June 21, 2007 and do not contain a general salary increase. These agreements do change health benefits, with an increase in co-payments and deductibles, and a 5% payment of health premiums for Employee Only coverage. The contracts also implement a 2.7% @ 55 retirement formula. Employees will make ongoing retirement contributions to pay the cost of the new retirement benefit.

Impact of the FY 2004-05 State Budget

The FY 2004-05 State budget includes new legislation that swaps County property tax for vehicle license fee revenue and requires that California counties contribute a portion of their property tax to the State to help fund the State's budget deficit. The County's general fund share of this revenue shift to the State is estimated at \$28 million per year and is payable in fiscal years 2004-05 and 2005-06. The County expects to fund its payments to the State from reserves. The payment to the State will reduce the County's reserves and its ability to offset the potential revenue loss from the Initiative.

In addition to the \$28 million County general fund transfer to the State, annual amounts of \$3.3 million from the County Harbor, Beaches, and Parks department, \$4.3 million from the County Flood Control District, and \$2 million from County redevelopment agency are payable to the State.

Financial Condition of the County

By most measures, the County's fiscal condition is stable. However, like many California local governments, the County faces several immediate and persistent fiscal challenges, including: (i) reduced reserves as a result of a recent economic recession, (ii) an immediate reduction in revenue diverted to the State, and (iii) workers' compensation and pension-related costs that are expected to grow faster than the rate of inflation.

Because the County has utilized much of its financial resources to pay ongoing costs in recent budgets, and given the new requirement to transfer

\$56 million to the State over the next two years, the County has limited financial resources to absorb or delay the impact of a revenue loss that would result from the Initiative.

Reserves

Until fiscal year 2002-03, the County had seven straight years of general fund operating surpluses. In fiscal year 2002-03, the County had a general fund balance drawdown of \$36 million. The County expects to continue to draw down general fund reserves in the next several years to fund departmental expenditures, including those of the Sheriff and District Attorney's Office, and the County's two year transfer to the State.

Bond Ratings

The County has outstanding debt in the form of municipal bonds. The bonds are evaluated by several "rating agencies" that monitor the County's financial condition and its ability to repay the debt. The rating agencies assign ratings ranging from "AAA" (the highest credit quality) to "CCC" (highly speculative).⁴

The County currently has general obligation ratings of Aa2 and A+ from the two largest rating agencies, Moody's Investors Services ("Moody's") and Standard and Poor's ("S&P"). The ratings are an indicator of the County's ability to repay general obligation debt. The ratings are relatively high and reflect certain fundamental credit strengths of the County.

In its July 2004 affirmation of the A+ ratings, S&P cited the County's positive rating factors to include: "Large, diverse and growing regional economy with high wealth levels; Good fund balance levels, which are expected to be drawn down somewhat over the next few years; and Moderate level of debt, which has been reduced substantially in recent years from prior high levels following the County's emergence from bankruptcy in 1996."⁵ S&P also refers to several offsetting credit factors including limited revenue flexibility and rising workers' compensation, health care and employee benefits and pension costs, which have forced the County to make service cuts and will likely force further cuts and reserve drawdowns.

Both S&P's and Moody's have a "stable" outlook on the County's rating, implying there is not an immediate likelihood of a rating change.

Regional Economic Condition

The County's finances are impacted, to a large extent, by the performance of the County economy. The local economy serves as a base for County property tax and sales tax, which are major sources of revenue.

The table below shows historical assessed values and taxable sales in the County from fiscal year 1999-00 through 2003-04. The County's assessed valuation has demonstrated strong growth over this timeframe, growing at an average rate of 8.4% per year. Taxable sales in the County have also grown steadily in the last two years, rebounding from a recession in 2001 and 2002.

⁴ In general, bonds can be rated AAA, AA, A, BBB, BB, B, and CCC, with intermediate designations of "+" or "-", or 1, 2, or 3.

⁵ Standard & Poor's, "Research: Orange County, California; Tax Secured, General Obligation" July 2004.

**COUNTY OF ORANGE
HISTORICAL TOTAL VALUATION AND TAXABLE SALES**

<u>Fiscal Year</u>	<u>Total Valuation</u> <u>(in 000s)</u>	<u>%</u> <u>Change</u>	<u>Taxable</u> <u>Sales</u> <u>(in 000s)</u>	<u>%</u> <u>Change</u>
1999-00	\$209,136,472	8.6%	\$42,553,609	10.7%
2000-01	228,548,300	9.3%	45,057,850	5.9%
2001-02	248,966,580	8.9%	44,207,950	-1.9%
2002-03	269,684,864	8.3%	45,908,071	3.8%
2003-04*	287,923,828	6.8%	n/a	-

Source: Orange County Office of Auditor-Controller, Assessed Valuation Reports; State Board of Equalization.

*Estimated

Based on Real Gross County Product ("GCP"), a measure of economic activity compiled by Chapman University, the County economy has demonstrated a steady recovery after a slowdown in 2001 and 2002. As shown in the table below, GCP has increased every year since 2001 and is expected to grow at a 6.51% rate in 2004.

**COUNTY OF ORANGE
HISTORICAL GROWTH IN GROSS COUNTY
PRODUCT**

<u>Year</u>	<u>Growth Rate</u>
1999	6.43%
2000	7.57%
2001	3.35%
2002	3.73%
2003	4.53%
2004	6.51%

Source: Chapman University, *General Purpose Revenue Forecast*.

Another indicator of economic activity is the unemployment rate. The County's unemployment rate continues to be one of the lowest in the State and below that of all surrounding counties. For the period January through April 2004, the mean unemployment rates for the Orange County, Los Angeles County, and California were 4.1%, 6.3%, and 6.5%.

The County also demonstrates positive economic characteristics in areas such as median home prices and median family incomes. The table below shows the median home prices and median family incomes for Orange, Los Angeles, San Diego, Riverside, and San Bernardino County. The County ranks favorably in comparison to the surrounding counties in both categories.

**COMPARISON OF COUNTY MEDIAN FAMILY INCOME
AND MEDIAN HOME SALES PRICE**

<u>County</u>	<u>2004 Median Family Income</u>	<u>2004 Year-to-Date Median Home Sales Price</u>
Orange	\$74,200	\$480,000
Los Angeles	52,500	369,000
San Diego	63,400	422,000
Riverside	54,300	297,000
San Bernardino	54,300	219,000

Source: U.S. Department of Housing and Urban Development; DataQuick Information Systems.

By most measures, the County demonstrates strong economic fundamentals, with high property values and incomes, and a history of steady economic growth. The strong economic fundamentals will continue to provide a large and growing tax base that can generate future growth in County revenues. Even with the strong tax base, revenue growth for the County will be restricted. As with all California counties, the County has limited ability to raise revenue, given the limitations in the growth of assessed value set forth in Proposition 13, and the voter approval requirements for new special and general taxes enacted, in part, through Proposition 218 and Proposition 62. In addition, the County receives only a portion of the countywide property tax. The County's share is equal to approximately 7% of the property tax, which is the lowest allocation among all counties in the State.⁶

Potential Service Impact

The revenue loss resulting from the Initiative will likely require that the County reduce services in order to reduce costs. The revenue loss is ongoing, and will require an offsetting reduction in ongoing expenditures in order to produce a structural balance in the County's general fund.

It is uncertain at this time which specific services would be reduced in the event the Initiative is passed, as any decision to reduce County services is a complex policy matter that involves all levels of County government, including the Board of Supervisors, County management, and County employees. However, the Board of Supervisors has approved a "no backfill" guideline as part of the SFP.⁷ Under this guideline, any reduction in revenues designated for specific programs, such as Proposition 172 revenue, may not be replaced with other County revenue. A loss of Proposition 172 revenue would negatively impact Sheriff's Department and District Attorney's Office services.

Revenue Loss in Sheriff's Department and District Attorney's Office

The County's Proposition 172 revenue is allocated entirely to the Sheriff's Department and District Attorney's Office and is a major funding source for these departments. The table below shows the source of funding for the

⁶ County of Orange Auditor Controller.

⁷ Orange County Board of Supervisors Minute Order, Item 37, March 18, 2003.

Sheriff's Department and District Attorney's Office in the fiscal year 2004-05 budget.

**SHERIFF AND DISTRICT ATTORNEY FUNDING SOURCES
FISCAL YEAR 2004-05 BUDGET
(dollars in millions)**

<u>Description</u>	<u>Sheriff-Coroner</u>		<u>District Attorney</u>	
	<u>Dollars</u>	<u>%</u>	<u>Dollars</u>	<u>%</u>
Proposition 172	\$ 191.6	55.7%	\$ 47.9	81.6%
Charges for Service	103.4	30.1%	0.4	0.7%
Licenses, Permits, Fines	1.5	0.4%	0.3	0.5%
Other Revenue	1.6	0.5%	3.3	5.5%
Other Financing Sources	45.7	13.3%	6.9	11.8%
Total Sources	\$ 343.8		\$ 58.7	

Source: County of Orange, County Executive Office.

The Sheriff's Department and District Attorney's Office also receive general County funding for costs (the "Net County Cost") that are not recovered from dedicated or internally generated funding, such as Proposition 172.

Sheriff's Department

The Sheriff's Department is responsible for responding to public safety concerns and providing safe and secure incarceration for inmates. The Sheriff provides patrol and other public safety services; investigates vice, gang, and narcotics crimes; provides forensic services; and operates and maintains jail facilities.

If the Initiative is passed, the Department will lose up to 10% of its Proposition 172 revenue. This reduction in ongoing revenue may require that the Department reduce service to balance its future budgets. This is because the Department currently projects that revenues will only be sufficient to maintain the current level of staffing over the next five years.

In addition, the Department has made many expenditure reductions over the past two years in response to a decrease in available revenues. Since fiscal year 2002-03, the Department has held 227 full-time positions vacant to remain within budget. During the fiscal year 2004-05 budget process, the Department created a "Blue Ribbon Committee" that assisted in identifying expenditure reductions. The Department was able to eliminate 48 positions and reduce services and supplies, which reduced expenditures by \$6.7 million in the FY 2004-05 budget. The programs impacted by the reductions include:

- Narcotics Enhancement Team Supervision and Community Support Services – 2 positions deleted
- Drug Education Programs in local schools and Community Special Events – 8 positions deleted
- K-9 Unit in South County
- Explorer Program meetings
- Coroner's Medical Transcription Contract
- Forensic Science Services

- Jail Cashiering Function at James A. Musick facility - 3 positions deleted
- Midnight Shift of Records Unit – 5 positions deleted
- Desktop Publishing
- Facilities Operations Maintenance
- Administrative positions in Central Jail Complex – 2 positions deleted
- Investigator positions - 9 positions deleted

In addition to reductions in existing services and programs, the Initiative will likely delay or eliminate many of the unmet funding needs of the Department. The table below shows funding needs that have been identified by the Department, which total \$372 million.

**ORANGE COUNTY SHERIFF'S DEPARTMENT
IDENTIFIED FUNDING NEEDS
(in millions)**

Description	Amount
Capital projects [1]	\$140.8
Maintenance/Repair Plan	10.2
Major Long-term Facility Needs [2]	140.0
Theo Lacy Building B support staff – 105 positions	14.0
Musick Expansion operating cost and staff – 105 positions	20.0
Understaffed programs – 121 positions	12.0
Equipment and supplies	35.0
Total	\$ 372.0

Source: Orange County Sheriff's Department.

[1] – Projects include: Central Jail Parking Lot, Water Conservation Study, Repair/Enhance Closed Circuit TV System, Replace Mounted Equestrian Unit Facility, Remodel Vocational Ed Bldg Warehouse into Car Shop, Musick Phase I – Central Cook/Chill Facility, Musick Phase I - Central Warehouse, Replace Intercom System, Musick Phase II – Design, Musick Phase II – Construction (500 Beds and Support Facilities), Provide Secure Parking at Eckhoff, Freezer Box, Autopsy Station, Enhance Audio Visual, Install Alarm System at South Justice Center Annex, Enclose Prisoner Bays at West Justice Center, Harbor Justice Center, and South Justice Center.

[2] - Projects include: Expand Emergency Operations Center at Loma Ridge, Replace Temporary 20 Year-Old Tents at James A. Musick Jail, Replace Temporary 20 Year-Old Modular Barracks at James A. Musick Jail, Rehab 38 Year-Old Central Men's Jail, Rehab 38 Year-Old Central Women's Jail.

District Attorney's Office

The District Attorney's Office is responsible for the prosecution of public offenses in the County. The District Attorney prosecutes felony and misdemeanor crimes, investigates criminal activity in partnership with other law enforcement agencies, and processes juvenile petitions for wardship.

In the event the Initiative is passed, the District Attorney will ultimately lose 10% of its Proposition 172 revenue, which currently comprises 82% of total revenue for the District Attorney. If the County does not replace the lost Proposition 172 revenue with other funding, the District Attorney may need to reduce the level of service it provides. The District Attorney projects (as part of the 2004 SFP) that, in the absence of the Initiative, it will have funding sufficient only to maintain its current level of staffing over the next five years.

As staffing costs makeup 87% of the budget for the District Attorney, any substantive loss of ongoing revenue may result in staffing reductions.

It is difficult to predict the specific services that would be reduced in the event the District Attorney loses Proposition 172 funding, as the District Attorney provides a variety of services and has flexibility in allocating resources to different programs. However, the District Attorney has made expenditure adjustments in the past to respond to cyclical decreases in Proposition 172 revenue, which provides an indication of the types of services that may be impacted. In fiscal year 2001-02 and 2002-03, the District Attorney reduced expenditures through a hiring freeze on non-critical positions, suspending non-essential overtime, and deferring equipment and non-essential supplies purchases.

In addition to cuts in existing services and programs, the Initiative will likely inhibit the ability of the District Attorney to accomplish many of its unmet needs and strategic goals. The table below shows identified funding needs for the District Attorney, which total \$4 million in ongoing annual costs.

**ORANGE COUNTY DISTRICT ATTORNEY'S OFFICE
IDENTIFIED FUNDING NEEDS**

<u>Description</u>	<u>Amount</u>
Additional Prosecutors – Misdemeanor Arraignment Courts	\$ 685,000
Multi-Jurisdictional Gang Task Force	775,000
“Task Force Review Aimed at Catching Killers, Rapists and Sexual Offenders”	270,000
Identity Theft Unit	480,000
High Tech Crime Unit	880,000
Participation in Prop. 36	910,000
Total	<u>\$ 4,000,000</u>

Source: Orange County District Attorney's Office.

Revenue Loss in Other General Fund-Supported Services

A loss of County Proposition 172 revenue as a result of the Initiative may result in a reduction in funding for County departments, other than the Sheriff's Department and District Attorney's Office. This is because the County could choose to backfill the loss in Proposition 172 revenue with other County general fund revenue. Any backfill of County revenue to the Sheriff and District Attorney's Office would reduce funding for other County services.

Fiscal Impact on the OCFA

The Initiative would provide a substantial and ongoing revenue source for the OCFA, which will broaden and diversify its revenues. The allocation of Proposition 172 sales tax revenue may increase OCFA annual revenues by over 10% and provide the OCFA with the resources to implement many of its strategic goals to improve service and increase capital investment.

Impact on OCFA Budget

The Initiative will provide a new and ongoing revenue source for the OCFA that can be expended on operating and capital purposes. Based on projections developed by County, the OCFA would receive \$60.9 in Proposition 172 revenue over the next five years (FY 2004-05 through 2008-09).

The table below shows a budgetary forecast of OCFA revenues (excluding any Proposition 172 revenue) and expenditures. The Initiative would provide an estimated \$13 million in additional new revenues beginning in FY 2006-07, growing to \$27.3 in FY 2008-09.

OCFA PROJECTED REVENUE AND EXPENDITURES
(in millions)

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Operating Revenues	\$187.5	\$197.9	\$206.7	\$213.7	\$220.2
Operating Expenditures	178.8	186.8	198.1	205.3	214.8
Net Revenue	<u>\$8.7</u>	<u>\$11.1</u>	<u>\$8.6</u>	<u>\$8.4</u>	<u>\$5.3</u>
Other Revenue	\$4.3	\$10.1	\$10.6	\$14.9	\$9.2
Capital Expenditures and Debt Service	22.9	17.3	17.2	23.8	18.4
Total Revenue Less Expenditures	<u>\$(9.9)</u>	<u>\$ 4.0</u>	<u>\$ 2.0</u>	<u>\$(0.5)</u>	<u>\$(3.9)</u>
Fund Balance	\$63.8	\$67.8	\$69.8	\$69.2	\$65.3
Proposition 172 Revenue	-	-	\$13.0	\$20.5	\$27.3

Source: Orange County Fire Authority, Fiscal Year 2004-05 Budget.

The OCFA's five-year projections of revenues and expenditure are based on a variety of assumptions of future conditions. Several of the key assumptions include:

- Secured property tax growth of:

FY 2004-05	8.95%
FY 2005-06	7.64%
FY 2006-07	5.17%
FY 2007-08	3.59%
FY 2008-09	3.00%

- Additional staffing for 3 new stations (11 positions), and 1 added position in San Clemente
- Salaries, excluding reserve firefighters, increase 4% per year through the term of existing labor agreements, 2% thereafter⁸
- Workers' compensation cost increases 5% per year after FY 2004-05

Financial Condition of the OCFA

The financial condition of the OCFA is stable due to reliable revenue sources, healthy reserves, and the implementation of fiscal practices to provide long-term financial sustainability. The OCFA receives either property tax, which continues to be exempt from State revenue shifts, or contract service revenue from Orange County cities that possess strong tax bases and stable finances. The OCFA maintained a total fund balance of \$73.7 million as of June 30, 2004, and projects a level balance of operating and capital reserves over the next five years. To counter rising salary and employee benefits costs, the OCFA has used budget balancing measures such as hiring freezes and deferring of staffing new stations, as well as reducing the funding level for workers' compensation.

OCFA Revenues

The OCFA is an independent California special district that receives funding from two primary sources: (i) property taxes paid by residents in 15 member cities and the County and (ii) direct charges for service paid by 7 member cities. For fiscal year 2004-05, property taxes comprised 70% of total revenue and charges for service comprised 25% of total revenue.

OCFA FUNDING SOURCES FISCAL YEAR 2004-05 BUDGET (dollars in millions)

<u>Description</u>	<u>Dollars</u>	<u>%</u>
Property Taxes	\$ 130.6	69.7%
Intergovernmental	8.0	4.3%
Charges for Service	47.1	25.1%
Other Revenue	1.8	1.0%
Total Sources	\$ 187.5	

Source: Orange County Fire Authority, Fiscal Year 2004-05 Budget.

⁸ The expiration dates for Memorandum of Understanding between the OCFA and its collective bargaining units are: Firefighter Unit, June 2007; Fire Management Unit, December 2008; General and Supervisory Units, December 2006.

OCFA Property Taxes

Property taxes are the largest revenue source for the OCFA. The OCFA receives a portion of the 1% ad valorem tax levied on all secured property within 15 member cities and the County. Historically, OCFA property tax revenue has increased in every year since fiscal year 1997-98, averaging a 6.5% annual growth rate.

OCFA HISTORICAL ANNUAL CHANGE IN PROPERTY TAX REVENUE

<u>Fiscal Year</u>	<u>Growth Rate</u>
1996-97	(2.93)%
1997-98	9.09%
1998-99	8.51%
1999-00	9.77%
2000-01	4.96%
2001-02	6.45%
2002-03	1.89%
2003-04	5.03%

Source: Orange County Fire Authority,
"Building a Strong Financial Future," February
26, 2004.

The OCFA property taxes are exempt from the State ERAF shift and are not affected by the FY 2004-05 State legislation that diverts property tax from local governments to the State.

OCFA Cash Contract Fees

The OCFA receives payment for the cost of providing service directly from 7 member cities. These cash contract cities do not contribute property taxes to the OCFA. For the contract cities, the terms of the fee for service are set forth in the OCFA Joint Powers Agreement. The agreement generally attempts to allocate the cost of providing service to the contract cities, but limits the annual increase in the amount paid to 4% per year, through fiscal year 2009-10.

OCFA Expenditures

The OCFA predicts its cost per capita to increase, reflecting the impact of rising salary and employee benefit costs. In the last ten years, the cost per capita has risen from approximately \$90 in FY 1993-94 to nearly \$140 in FY 2004-05. Budgeted expenditures for FY 2004-05 increase \$7.1 million from the prior year and are attributable to rising salary and benefit costs. The FY 2004-05 budget anticipates a \$3.1 million increase in salaries, \$2.4 million increase in retirement costs, \$1.6 million in benefits.

While expenditures have increased \$7.1 million, revenues have increased \$10.5 million in the FY 2004-05 budget. The largest portion of the revenue growth (\$10.1 million) is due to an 8.95% increase in secured property tax revenues.

Reserves

The OCFA maintains general fund reserves for operating, capital replacement, self-insurance, and debt service. The table below shows the projected amount of end-of-year reserves for fiscal year 2004-05.

**ORANGE COUNTY FIRE AUTHORITY
PROJECTED ENDING FUND BALANCE
FISCAL YEAR 2004-05
(in millions)**

<u>Description</u>	<u>Amount</u>
Operating Reserve	\$ 26.6
Other Designated Reserves	9.3
Capital Reserve	27.9
Total	<u>\$ 63.8</u>

Source: Orange County Fire Authority, Fiscal Year 2004-05 Budget.

Over the next five years, the OCFA projects that the operating reserve will grow steadily to \$32.2 million in FY 2008-09 and will meet the OCFA policy to maintain an operating reserve equal to 15% of expenditures. The projected OCFA operating reserve for fiscal years 2004-05 through 2008-09 are shown in the table below.

**ORANGE COUNTY FIRE AUTHORITY
PROJECTED OPERATING RESERVE
(in millions)**

<u>Year</u>	<u>Amount</u>
2004-05	\$ 26.7
2005-06	28.0
2006-07	29.7
2007-08	30.8
2008-09	32.2

Source: Orange County Fire Authority, Fiscal Year 2004-05 Budget.

Bond Ratings

With its last issuance of revenue bonds in 2001, the OCFA was rated “AA” and “A1” by S&P and Moody’s respectively. S&P’s cites the credit strengths of the OCFA to include:

- Stable revenue stream comprised mostly of ad valorem property taxes with the top two ad valorem cities, Irvine and Mission Viejo, comprising nearly half of total assessed value (AV) of all member cities;
- The Authority’s large and diverse tax base;
- Strong financial management and robust financial performance, resulting in very good debt service coverage and strong balance sheet;
- Strong legal structure of the Amended Orange County Fire Authority Joint Powers Agreement.

Moody's also cites the OCFA's strong service area, healthy finances and minimal debt as reasons for its strong credit rating. The OCFA benefits from the diverse economy of the region it serves.

Both rating agencies refer to the limited revenue-raising capacity of the OCFA as its main offsetting credit concern. Currently, the OCFA's revenues consist primarily of property taxes and service contract payments. The OCFA does not have the power to increase property taxes or collect property tax revenue in the 7 contract service cities. Furthermore, the OCFA service contracts, which extend through fiscal year 2009-10, limit the amount that can be charged. In the event the OCFA experiences increases in costs that are greater than the growth in property tax revenue and the allowable charges under the existing service contracts, the OCFA has limited ability to increase revenues.

Potential Service Impact

The Initiative would provide a substantial ongoing source of revenue for the Orange County Fire Authority and may allow the OCFA to provide expanded fire service to member jurisdictions.

Current Service Compared to Other Jurisdictions

In order to examine how the Initiative will impact the OCFA's delivery of services, this section compares the OCFA's existing delivery of services to other fire departments that are comparable in size, range of services and scope. By using metrics such as the population served per station, this section will provide an evaluation of how the OCFA compares with others in terms of resources it provides for the service area it protects.

An indicator of fire station coverage is the number of people served per station. In California, this metric ranges from 15,723 for Oakland to 38,835 for Los Angeles. The OCFA averages 21,496 per station, which is below the average of 26,596 for California fire departments.

**FIRE SERVICE INDICATORS FOR
CALIFORNIA FIRE SERVICE PROVIDERS**

<u>Jurisdictions</u>	<u>Population Served</u>	<u>Land Area (Sq. Mi.) protected</u>	<u>Fire Stations</u>	<u>Population /Sq. Mi.</u>	<u>Population /Station</u>
Los Angeles	4,000,000	471.0	103	8,493	38,835
Santa Ana *	360,000	28.0	10	12,857	36,000
Anaheim *	334,700	50.0	11	6,694	30,427
San Jose	918,000	203.0	31	4,522	29,613
San Diego	1,300,000	331.0	45	3,927	28,889
Fresno	445,000	105.0	16	4,238	27,813
Los Angeles County	3,860,000	2,296.0	158	1,681	24,430
Huntington Beach*	195,000	27.0	8	7,222	24,375
Torrance	140,000	22.0	6	6,364	23,333
Glendale	200,200	30.6	9	6,545	22,244
OCFA*	1,289,771	552.8	60	2,333	21,496
Santa Monica	85,000	8.3	4	10,241	21,250
Sacramento	463,760	144.0	22	3,221	21,080
Long Beach	472,412	55.0	23	8,589	20,540
San Francisco	793,600	47.5	42	16,707	18,895
Oakland	408,800	58.7	26	6,964	15,723
Weighted Average	954,140	276.9	36	3,446	26,596

* Within the County of Orange.

In addition to measuring population coverage, another measure of services is the relative equipment level. The table below shows the number of engines and trucks owned across several California fire jurisdictions and the number of engines per 1,000 residents. The OCFA has approximately .04 engines per 1,000 residents, which is near the average of the sample group.

**FIRE SERVICE EQUIPMENT FOR
CALIFORNIA FIRE SERVICE PROVIDERS**

<u>Jurisdictions</u>	<u>Engines</u>	<u>Trucks**</u>	<u>Engines/ 1,000 pop</u>
Los Angeles County	236	41	0.06
Long Beach	22	4	0.05
Santa Monica	5	1	0.06
Huntington Beach*	8	2	0.04
OCFA*	51	13	0.04
Oakland	26	7	0.06
Torrance	7	2	0.05
Santa Ana*	10	3	0.03
Fresno	16	5	0.04
San Diego	45	14	0.03
Glendale	9	3	0.04
Sacramento	22	8	0.05
San Jose	31	11	0.03
San Francisco	42	20	0.05
Los Angeles	99	49	0.02
Weighted Average	42	12	0.04

* Within the County of Orange.

**Trucks include quints and tower ladders.

The following table shows total and uniformed staffing levels in terms of population. For staffing levels, the OCFA is below the average of the sample group at 0.6 personnel per 1,000 persons, as compared to 0.9 for other California fire departments.

**STAFFING LEVELS FOR
CALIFORNIA FIRE SERVICE PROVIDERS**

<u>Jurisdictions</u>	<u>Population Served</u>	<u>Total Staffing</u>	<u>Uniformed FF (career)</u>	<u>Uniformed Personnel/ 1000 pop</u>
San Francisco	793,600	1,900	1,750	2.2
Oakland	408,800	560	492	1.2
Torrance	140,000	179	159	1.1
Santa Monica	85,000	115	90	1.1
Long Beach	472,412	555	495	1.0
Sacramento	463,760	571	434	0.9
Glendale	200,200	232	174	0.9
Los Angeles County	3,860,000	4,468	2,889	0.7
San Jose	918,000	N/A	689	0.8
Los Angeles	4,000,000	3,709	3,376	0.9
Huntington Beach*	195,000	179	135	0.7
San Diego	1,300,000	1,005	880	0.7
Anaheim*	334,700	288	216	0.6
OCFA*	1,289,771	1,078	764	0.6
Fresno	445,000	294	263	0.6
Santa Ana*	360,000	240	204	0.6
Weighted Average	954,140	1,025	813	0.9

* Within the County of Orange.

Impact of Initiative on OCFA Services

The ultimate impact of the Initiative on OCFA services is difficult to predict, as the decision on the use of Proposition 172 funds will be made by OCFA Board, management, and employees. However, based on the fire service indicators included in this report and the OCFA's identified funding needs, it is likely that the Initiative will result in increased staffing for fire stations and engine and truck companies, and replacement of existing fire stations and helicopters.

Identified Funding Needs

As part of its budgetary process, the OCFA has identified funding needs that can not be met with existing financial resources. The table below identifies the OCFA funding needs and the estimated cost.

**ORANGE COUNTY FIRE AUTHORITY
IDENTIFIED FUNDING NEEDS
(in millions)**

<u>Description</u>	<u>Amount</u>
Unfilled positions (4)	\$.4
Service and supplies	.8
Station 47 staffing	.9
Station 55 staffing	3.3
Seasonal handcrew	1.2
Hazardous Materials staffing	1.7
Engine Company 45, 47, and 55 staffing	1.2
Truck Company 43, 46, 59, and 64 staffing	1.5
Addition of fourth person to Engine Companies	12.0
Emerald Bay staffing	.8
Fire Station 41 and 52 replacement	2.5
Helicopter replacement	8.0
Thermal imaging cameras	1.2
Portable radios	.3
Automatic vehicle locator	1.0
Tiered medial dispatch program	.2
Total	<u>\$37.0</u>

Source: Orange County Fire Authority, "Building a Strong Financial Future," February 26, 2004.

Fiscal Impact on Cities in Orange County

The Initiative would reduce revenue that is currently received and expended by the County and will not have a direct fiscal impact on cities within the County. However, because the County provides services to residents of all cities within the County, these residents may experience a reduction in services provided by the County. For cities in Orange County that are members of the OCFA, the Initiative may result in additional OCFA services. For those cities that are not members of the OCFA, there will be no offsetting gain in municipal revenue or services.

OCFA Member Cities

The OCFA is comprised of 22 member cities and the County of Orange. The member jurisdictions (including the County) comprise 43% of the total population in the County. The member jurisdictions fund the OCFA either through a portion of 1% property tax collected in those cities (15 cities and the County) or on a contract basis (7 cities).

The table below lists each of the member jurisdictions, the payment method, and population.

OCFA MEMBER JURISDICTIONS

<u>Jurisdiction</u>	<u>Payment Method</u>	<u>Population</u>
Aliso Viejo	Property tax	44,850
Buena Park	Contract	80,600
Cypress	Property tax	48,450
Dana Point	Property tax	36,550
Irvine	Property tax	171,800
Laguna Hills	Property tax	33,000
Laguna Niguel	Property tax	65,700
Laguna Woods	Property tax	18,300
Lake Forest	Property tax	77,700
La Palma	Property tax	16,050
Los Alamitos	Property tax	11,950
Mission Viejo	Property tax	97,800
Placentia	Contract	49,900
Rancho Santa Margarita	Property tax	49,000
San Clemente	Contract	63,100
San Juan Capistrano	Property tax	35,850
Seal Beach	Contract	24,950
Stanton	Contract	38,600
Tustin	Contract	70,300
Villa Park	Property tax	6,200
Westminster	Contract	91,500
Yorba Linda	Property tax	64,000
Orange County	Property tax	112,800
Total		1,308,950

Source: Population estimates from the State of California Department of Finance.

For cities that contract for service with the OCFA, the service cost is paid by the respective city. For cities that fund the OCFA through property taxes, the payment is made directly by the residents of those cities as part of the 1% property tax. In the event the Initiative is passed, the OCFA will receive a significant and ongoing source of revenue that will increase and broaden its financial resources. The additional revenue may reduce or limit future increases in the charges to the contract cities, and mitigate future fire service costs for the OCFA contract cities. The OCFA contract cities have existing agreements that provide service through fiscal year 2009-10 and limits the annual increase in the amount paid to 4% per year.

Potential Service Impact

The OCFA member jurisdictions may benefit from a higher level of fire service as a result of the Initiative, as the OCFA is expected to increase staffing, make capital improvements, and purchase equipment with the Proposition 172 revenue. Many of the potential uses of Proposition 172 revenue, such as the addition of a fourth man to fire engines, will benefit all OCFA member jurisdictions. Other uses of funding, such as funding for additional fire station staff (Station 47– Irvine, Station 55 – Irvine), additional engine company staff (Engine Company 45), and the replacement of fire stations (Fire Station 41 – Fullerton Airport, Fire Station 52 – Irvine) will primarily benefit the cities where the station is located.

Other Cities in Orange County

Twelve of the 34 cities in Orange County have independent fire departments that provide service to the respective city. The table below lists the cities and the population, as of January 1, 2004. The total population for these cities is 1.8 million, which represents 57% of the total County population.

POPULATION OF ORANGE COUNTY CITIES WITH INDEPENDENT CITY FIRE DEPARTMENTS

<u>City</u>	<u>Population</u>
Anaheim	343,000
Brea	38,950
Costa Mesa	113,000
Fountain Valley	56,500
Fullerton	134,200
Garden Grove	171,000
Huntington Beach	198,800
Laguna Beach	24,750
La Habra	61,500
Newport Beach	80,800
Orange	136,700
Santa Ana	349,100
TOTAL	1,708,300
County of Orange	3,017,300

Source: State of California Department of
Finance.

The Initiative affects Proposition 172 revenue that is received and expended directly by the County and does not impact revenue that is received by cities in Orange County. Because the Initiative does not impact any dedicated city funding source, it is not expected to have a direct fiscal impact on the cities in Orange County that have independent fire departments.

Potential Service Impact

Passage of the Initiative will likely reduce County services and impact all cities in Orange County including those with independent fire departments. It is difficult, however, to determine specifically which County services would be reduced and what areas within the County would be negatively impacted. This service decision would be made by the Board of Supervisors, which has authority to reallocate funding and modify a wide-range of services.

Because the cities with independent fire departments are not members of the OCFA, they will not receive a direct increase in fire service as a result of the Initiative.